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ABSTRACT

A summary of the results of various California community college financial audits and reviews for fiscal year (FY) 1990-91 are presented in this report. Section I explains the scope, purpose, and procedures of annual financial and compliance audits which are conducted to evaluate financial statements, encourage sound fiscal management practices, ensure proper use of public funds, and strengthen fiscal accountability at the district level. This section includes an analysis of the 645 citings contained in the FY 1990-91 audits. Section II describes the design and implementation of a system for monitoring and evaluating the financial condition of community college districts. Section III presents a summary of the results of a study of coordinated accountability efforts and the changes that have occurred in coordinated program reviews, focusing on the discontinuation of site visits. Section IV discusses the proposed revision of the "Community College Budget and Accounting Manual" intended to make community college accounting techniques more consistent with generally accepted governmental accounting procedures. Appendixes provide federal and state compliance requirements, and contracted district audit manual revisions as of March 1992. (JSP)

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Report on Fiscal and Compliance Accountability

Fiscal Year 1990-91

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Chancellor's Office
California Community Colleges

June 1992

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Report on Fiscal and Compliance Accountability
Fiscal Year 1990-91

Report 92-2

Fiscal and Program Standards Accountability
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California Community Colleges
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INTRODUCTION

Section 70901 of the *California Education Code* vests the Board of Governors with responsibility for providing leadership and direction in the development of the California Community Colleges as an essential component of the State's system of public higher education. To that end, the Chancellor's Office oversees community college programs and advises and assists local governing boards in interpreting and implementing applicable State and federal laws. The fiscal and compliance accountability activities summarized in this report are an important part of this oversight mandate.

Annual financial and compliance audits conducted pursuant to the *Education Code* (Section 84040) attest to the accuracy and completeness of district financial statements. The Chancellor's Office oversees these contracted district audits (CDAs) in cooperation with the State Department of Finance This report represents the Board of Governors response to the provisions of Section 84040.6 of the *Education Code*, to submit a summary of the CDA reports for fiscal year 1990-91 to the Joint Legislative Audit Committee.

Independent of the Department of Finance, the Chancellor's Office has responsibility for monitoring the fiscal condition of community college districts, as well as for conducting coordinated reviews of categorically-funded programs to ensure that districts fully comply with applicable State and federal requirements. This report presents an overview of these activities for the 1990-91 fiscal year in addition to the summary of contracted district audits. It also explains the role of the Chancellor's Office in encouraging and guiding college accountability efforts.

California Community Colleges are complex organizations, consisting of many programs and activities, each with its own assigned area of responsibility. One of the many activities under the control of local administrators is district financial management. Independent oversight of district financial accountability is maintained primarily through CDAs, which are conducted by private accounting firms hired by the district. As discussed in greater detail in Section I, all 71 community college districts received the required annual financial and compliance audits of fiscal year 1990-91. Audit reports for 53 of these districts were filed with the Chancellor's Office by the December 31 due date, with the remaining 18 being received within 65 days of that date.

Local administrators also are responsible for maintaining the fiscal health of their districts. In previous years, some districts have experienced such severe financial problems that additional State aid (loans) has been required to maintain their educational programs. For that reason, the Chancellor's Office now operates a system for monitoring and evaluating fiscal conditions that provides early identification of and assistance to districts experiencing financial difficulties. This system, discussed in detail in Section II, is another Chancellor's Office service designed to strengthen district financial administration.

To ensure that districts comply with restrictions placed on funds provided for special purposes, the Chancellor's Office conducted detailed reviews of specified categorically funded programs, as described in Section III. These reviews were designed to determine district compliance with applicable State and federal statutes and regulations to a greater degree than examinations performed during contracted district audits. Reports created as a result of these visits and evaluations present detailed discussions of issues concerning Extended Opportunity Programs and Services (EOPS), Disabled Student Programs and Services (DSP&S), Board of Governors Grant Program (BOGG), financial aid programs, and programs and services funded by the Carl D. Perkins Vocational Education Act.

As preliminarily discussed in the 1989-90 edition of this report, reviews of these major categorical programs were coordinated to encompass fiscal, compliance, and program operations. The review technique called for those districts scheduled for a periodic accreditation evaluation to self-evaluate their programs through comprehensive questionnaires. After the questionnaires were returned and evaluated by Chancellor's Office personnel, approximately one half of the campuses were visited to gather additional, related information. Due to recent reductions in funding of State agencies, continuing review efforts currently involve only the completion and review of the questionnaires without subsequent site visits.

SECTIONS

I. **Annual Financial and Compliance Audits**

II. **Fiscal Condition Monitoring and Evaluation**

III. **Coordinated Program Fiscal and Compliance Reviews**

IV. **Community College Accounting Standards**

SECTION I

Annual Financial and Compliance Audits

By law, all community college districts are required to undergo annual financial audits conducted by certified public accountants licensed by the State Board of Accountancy (*Education Code* Section 84040). These audits

- evaluate annual financial statements,
- encourage sound fiscal-management practices,
- ensure proper use of public funds, and
- strengthen fiscal accountability at the district level.

The auditing profession has developed, over time, auditing and reporting standards that apply to all governmental units, including California Community Colleges. These standards dictate format and content of governmental financial statements and the financial disclosures required. Because California Community Colleges have aspects of financial operations not found in other units of California local government, the Board of Governors prescribes information to be included in the auditor's report and, in association with the Department of Finance, develops audit procedures for evaluating specific community college programs. For that purpose, the Chancellor's Office issues a *Contracted District Audit Manual*, hereafter referred to as the Manual.

The Manual requires each auditor to follow generally accepted auditing standards for governmental units, including reviews of district financial statements and related fiscal operations. Because community college districts are governmental units, general auditing standards require auditors to evaluate districts' compliance with laws and regulations affecting the receipt and expenditure of public funds in general. These evaluations culminate in contracted district audit reports that determine whether district financial statements are fairly presented, in accord with generally accepted standards for governmental units, and provide positive assurances regarding internal fiscal controls and compliance with selected State and federal statutes and regulations.

Although the Manual stipulates areas to be examined and the format of the audit reports, the districts themselves are responsible for engaging independent accounting firms to perform annual audits in accordance with established guidelines.

Scope of Annual District Audits

Audits of community college districts have a different focus from those of publicly held corporations. In contrast to firms that derive income from the sale of goods and services, community college districts are funded on the basis of the number of students who attend classes and the assessed value of private residential and commercial property in the district. With the introduction of program-based funding, districts also receive funds based upon the number of students enrolled and the gross square footage of facilities used to provide services. Districts receive significant additional State funding for specific supplemental programs, including Extended Opportunity Programs and Services and Disabled Students Programs and Services, among others.

Districts also receive federal funds from multiple sources, including the Stafford Student Loan program, the College Work-Study program, the Pell Grant program, and the Carl D. Perkins Vocational and Applied Technology Education Act. Each of these federal programs has statutory and regulatory requirements that control the receipt and expenditure of funds. Financial audits of community colleges discussed here encompass all funds controlled by districts. Consequently, auditors review the fiscal operations of State and federal categorical programs as part of their annual audits.

To assist district auditors in reviewing categorical programs, the Manual includes procedures suggested in the federal *Compliance Supplement for Single Audits of State and Local Governments*. Additional direction is provided to auditors in another section of the Manual that presents State statutes and regulations where compliance is an important concern. Auditors are required to review district compliance in these specific areas as part of their annual examinations. The focus of State compliance areas is modified as concerns change. The federal and State compliance requirements for fiscal year 1990-91 are listed in Appendix A.

After being presented to and approved by the local district governing board, the completed audit report is submitted to the Board of Governors and the Department of Finance on or before December 31 of each year. In prior years, the audit report due date was November 15 but could be extended to December 31 by the county superintendent of schools. The reassignment of governance responsibilities made by Assembly Bill 1725 (Chapter 973, Statutes of 1988), resulted in moving the due date to December 31 and eliminating the extension. Because district audits include evaluations of major federal programs, copies of the reports must also be submitted to the federal Department of Education.

Audit reports are not always submitted by the deadline and do not always include all of the required statements and attestations. While all 71 community college districts received the required audits, only 53 districts filed their fiscal year 1990-91 reports by the December 31 deadline. The remaining 18 districts filed their audit reports within 65 days of the due date. Six district reports did not include all of the required

information when originally submitted, and those districts subsequently corrected their reports following notification by the Chancellor's Office.

Audit Issues Found

District audits for fiscal year 1990-91 contained 645 citings. Of those, 72 concerned required State compliance tests, 118 applied to compliance with federal regulations, 29 concerned State General Apportionment regulations, 13 dealt with State program compliance issues not specifically required of all audits, and 413 involved districts' internal accounting and administrative controls.

The number of findings reported in annual audits varies widely between reports and does not necessarily indicate the relative performance of one district in comparison to another. The number of findings a district may receive is influenced by the relative significance of the reported issues, the editorial style of the audit firms, and the size and structure of the district accounting systems (see Table 1).

Citings in all the categories except internal accounting and administrative controls are matters of State jurisdiction and fall within the purview of the Chancellor's Office. The office monitors the resolution of citings in these categories to determine what actions districts have taken to implement the auditors' recommendations. The office then evaluates each district's response and either (1) verifies that appropriate action is being taken to achieve compliance or (2) initiates further contact with the district to resolve the issue.

Citings concerning internal accounting and administrative controls are generally considered to be matters for local resolution. Past experience indicates that districts are usually eager to implement recommendations for strengthening internal controls. The Chancellor's Office may become involved in these resolutions if citings indicate systemwide problems that need to be addressed through amendments to the California Community Colleges *Budget and Accounting Manual* or other State publications.

The Chancellor's Office generally does not actively influence locally determined resolutions of internal accounting control findings unless other conditions exist. One such condition is the district's ability to respond to changing fiscal conditions. Citings that demonstrate a district is in or headed toward financial difficulty are referred to as "Going Concern Issues" by the auditors. These issues may be reported as a qualification of the auditor's opinion on the financial statements or may be identified in the audit report by a comment or citing regarding a district's financial information system or its ability to meet its financial obligations. Although such issues may be matters for State concern, auditors usually report them as internal control problems relating to general accounting or budgeting procedures.

As is discussed in Section II, the Chancellor's Office is responsible for identifying and monitoring the financial condition of community college districts. The review and analysis of district audit reports described here represents just one of the components of the early-warning mechanism that has been developed for that purpose.

TABLE 1

ANNUAL AUDITS

Summary of Audit Citings

Fiscal Year 1990-91

District	A	B	C	D	E	District	A	B	C	D	E
ALLAN HANCOCK JOINT						NAPA VALLEY					
ANTELOPE VALLEY						NORTH ORANGE COUNTY					
BARSTOW						PALO VERDE					
BUTTE						PALOMAR					
CABRILLO						PASADENA AREA					
CERRITOS						PERALTA					
CHABOT-LAS POSITAS						RANCHO SANTIAGO					
CHAFFEY						REDWOODS					
CITRUS						RIO HONDO					
COAST						RIVERSIDE					
COMPTON						SADDLEBACK					
CONTRA COSTA						SAN BERNARDINO					
DESERT						SAN DIEGO					
EL CAMINO						SAN FRANCISCO					
FEATHER RIVER						SAN JOAQUIN DELTA					
FOOTHILL-DeANZA						SAN JOSE-EVERGREEN					
FREMONT-NEWARK						SAN LUIS OBISPO COUNTY					
GAVILAN JOINT						SAN MATEO COUNTY					
GLENDALE						SANTA BARBARA					
GROSSMONT-CUYAMACA						SANTA CLARITA					
HARTNELL						SANTA MONICA					
IMPERIAL						SEQUOIAS					
KERN						SHASTA-TEH.-TRI. JOINT					
LAKE TAHOE						SIERRA JOINT					
LASSEN						SISKIYOUS					
LONG BEACH						SOLANO COUNTY					
LOS ANGELES						SONOMA COUNTY					
LOS RIOS						SOUTHWESTERN					
MARIN						STATE CENTER					
MENDOCINO-LAKE						VENTURA COUNTY					
MERCED						VICTOR VALLEY					
MIRACOSTA						WEST HILLS					
MONTEREY PENINSULA						WEST KERN					
MT. SAN ANTONIO						WEST VALLEY-MISSION					
MT. SAN JACINTO						YOSEMITE					
						YUBA					

Definitions

A = Required State Compliance
B = Federal Program Compliance
C = State General Apportionment
D = State Program Compliance
E = Internal Accounting Controls

State Jurisdictional Citings

The 72 citings concerning compliance with selected State statutes and regulations were found in 36 of the 71 (51 percent) reporting districts (see Table 2). For the second year in a row, the most frequent citings were in the following three categories: Census and Drop Procedures (23), State Aid for Course Repetition (17), and Audit Trail Accountability (15). All three of these areas remain part of the required scope of annual audits for fiscal year 1991-92 with slight modifications to both census and drop procedures and audit trail accountability due to the implementation of program-based funding. Those two tests are called "students actively enrolled" and "required data elements," respectively.

TABLE 2

ANNUAL AUDITS

Required State Compliance Tests
Fiscal Year 1990-91

Categories	Districts Cited	Audit Citings
Census and Drop Procedures	16	23
State Aid for Course Repetition	16	17
Audit Trail Accountability	10	15
Salaries of Classroom Instructors (50% Law)	6	6
Residency Determination	5	5
Student Probation and Dismissal	3	3
Instructional Equipment	2	2
Gann Limit Calculation	1	1
Excess Costs of Disabled Student Special Courses	0	0
Allocation of Costs	0	0
EOPS Administrator/Director Requirements	0	0
STATEWIDE	**36***	**72**

* A district may have received more than one audit citing.

Census and drop procedures concern methods used to determine the status of students for purposes of reporting attendance. The calculation of full-time equivalent students (FTES), although different from average daily attendance (ADA), still requires districts to apply census procedures and drop dates to determine active students. Accordingly, with the implementation of program-based funding, this compliance test remains significant.

State aid for course repetition concerns districts' methods for identifying students who repeat courses. With the majority of district funding derived from the State

General Apportionment, the Chancellor's Office is concerned that district procedures for monitoring course repetitions are in general agreement with Board of Governors regulations. Audit trail accountability concerns the ability of districts to report data elements required for the calculation of State General Apportionment. Under program-based funding, districts must be capable of capturing additional data elements.

The 118 findings found in federal programs are identified by program in Table 3. These findings were found in audits of 43 districts. Student financial aid programs, including Pell Grant, Supplemental Education Opportunity Grant, College Work-Study, the Higher Education Act, and general student financial aid operations accounted for 79 (67 percent) of these citings. Auditors also reported 26 instances of noncompliance with federal vocational education regulations.

TABLE 3

ANNUAL AUDITS

Federal Program Compliance

Fiscal Year 1990-91

Programs	Districts Cited	Audit Citings
Pell Grant	10	13
Supplemental Education Opportunity Grant	0	0
College Work Study	3	5
Higher Education Act (Stafford Student Loan)	9	11
Student Financial Aid Operations	26	50
Subtotal	**34***	**79**
Vocational Education	20	26
Job Training Partnership Act	2	5
Amnesty Education	2	3
Child Development	2	3
Other Federal	2	2
STATEWIDE	**43***	**118**

* A district may have received more than one audit citing.

State General Apportionment is calculated using information submitted by districts on the CCFS-320. Auditors cited 29 districts under the general topic of State General Apportionment (41 percent), as illustrated in Table 4. When annual auditors reviewed the information submitted on the CCFS-320 as part of their verification of State revenues, they found 19 instances where districts needed to correct reported amounts. Because of the relative importance of State General Apportionment to

other sources of college funding, auditors also reviewed districts' compliance with selected attendance regulations. Reviews of attendance regulations summarized here are in addition to those required of all audits by the State compliance tests shown in Table 2, Required State Compliance Tests. Attendance documentation is the category used to identify instances where districts needed to improve their internal control systems used to accumulate attendance data.

TABLE 4

ANNUAL AUDITS

State General Apportionment

Fiscal Year 1990-91

Categories	Districts Cited	Audit Citings
CCFS-320 Corrections	8	19
Attendance Regulations Compliance	4	6
Attendance Documentation	4	4
STATEWIDE	**13***	**29**

* A district may have received more than one audit citing.

The findings that address compliance with specific State programs are summarized in Table 5. Like Table 4, numbers mentioned in Table 5 are in addition to those listed in Table 2, Required State Compliance Tests. The most frequent program cited was the Extended Opportunity Programs and Services (EOPS). This program encourages the enrollment of students handicapped by language, social, and economic disadvantages, and facilitates the successful completion of their education goals and objectives. State allocations for EOPS are awarded to districts based on the number of documented, eligible EOPS students identified and served by the district. The amount of EOPS funds received by districts can be quite material. In total, State apportionment for EOPS in fiscal year 1990-91 was $31.9 million; hence, annual auditors often chose to verify EOPS financial transactions or a district's compliance with State regulations. Findings in the EOPS program for 1990-91 dealt with claims that were filed late and the absence of adequate financial documentation in support of the claims.

TABLE 5

ANNUAL AUDITS

State Program Compliance

Fiscal Year 1990-91

Programs	Districts Cited	Audit Citings
Extended Opportunity Programs and Services	5	5
Disabled Students Programs and Services	2	2
Matriculation	1	1
Facility related Programs	1	1
Other	4	4
STATEWIDE	11*	13

* A district may have received more than one audit citing.

Local accounting and administrative controls are evaluated as part of any annual audit. Auditors determine if district administrative practices have employees performing incompatible activities, such as depositing cash and also reconciling cash deposits to the bank statements. The most prevalent areas cited in the internal controls area in fiscal year 1990-91 were procedures involving the handling of current assets and current liabilities including cash, accounts receivable, and accounts payable (Table 6). The second most common area cited was general administrative controls that included, among others, computer operations and security.

TABLE 6

ANNUAL AUDITS

Internal Accounting Controls

Fiscal Year 1990-91

Categories	Districts Cited	Audit Citings
Current Assets and Liabilities	54	226
Long-Term Liabilities	9	12
Fixed Assets	34	47
Other	43	128
STATEWIDE	62*	413

* A district may have received more than one audit citing

Summary

Contracted district auditors are to be complimented for their efforts. Their findings are being presented in detail, and with more clarity, and recommend specific corrective actions. In addition, auditors are expanding their examinations into other program areas, as shown by the citings in the EOPS and State General Apportionment areas.

Increasing the effectiveness of contracted district audits is a continuing priority for the Chancellor's Office. Staff has worked closely with the Department of Finance to keep the Manual current. There also have been continuing efforts to increase communications with district auditors and to improve their understanding of community college financial operations.

In March 1992, for the second year in a row, the Chancellor's Office issued a revised Manual informing districts and auditors of financial reporting requirements and compliance areas for the next two fiscal years. Significant revisions were made to the Manual in Section 400, "State Compliance Requirements," and Appendix A, "Illustrative Audit Report." These changes affect federal reporting requirements for single audits. Mandated State compliance requirements now include annual verification of the district's calculation of the Gann Limit, added in response to the provisions of Proposition 111. This required the addition of Subsection 431 to Section 400 of the Manual. Because of the readoption of the federal Office of Management and Budget Circular A-128, *Audits of State and Local Governments*, the illustrative audit report in Appendix A of the Manual was modified. Specific revisions to the Manual are detailed in Appendix B of this report.

Historically, the Chancellor's Office did not communicate directly with annual district auditors but relied upon district business officers to notify auditors of any changes that affected annual financial audits. Recent years have seen a significant change in this practice. Greater efforts are now being made to notify district auditors directly when changes occur that affect their work. In addition, in 1991 and 1992 the Fiscal and Program Standards Accountability Unit sponsored and conducted workshops specifically designed for annual auditors. The first year's workshop focused on familiarizing auditors with programs and activities unique to community colleges. At the request of the participants at the first workshop, the second year's workshop was more technical with an emphasis on fiscal reporting requirements and internal control evaluations. All of these efforts have been well received and are expected to continue.

SECTION II

Fiscal Condition Monitoring and Evaluation

In response to the concern over districts experiencing fiscal difficulties and possibly requiring emergency loans, Assembly Bill (AB) 2910 (Chapter 1486, Statutes of 1986) was enacted with the support of the Board of Governors and other groups to foster sound financial management in the California Community Colleges. This legislation requires districts to submit quarterly reports on their financial condition to the Chancellor's Office, which has the responsibility of identifying districts at risk and, when necessary, the authority to intervene to bring about fiscal stability. Consistent with these responsibilities, in 1987 the Board of Governors adopted basic guidelines entitled, "Expectations for Sound District Financial Management."

These general objectives have been reinforced by the passage of AB 1725 (Chapter 973, Statutes of 1988), which brought about major reforms in community colleges. One of its key provisions is the periodic assessment of community colleges' effectiveness, as measured by selected fiscal and educational factors. Additionally, the implementation of the systemwide management information system is expected to assist in providing this necessary analytical information on a timely basis. Another key provision is recognition of the Board of Governors as the governance authority for the California Community Colleges.

Recent legislation, Senate Bill (SB) 1854 (Chapter 1372, Statutes of 1990), removed or amended many sections of the *Education Code* in an effort to recognize the transfer of governance authority specified in AB 1725. SB 1854 has brought about the need to modify regulations to clarify and improve the fiscal monitoring system. These modifications will be developed in conjunction with the consultative process during the coming year.

To carry out the provisions of AB 2910 and to promote the principles set forth by the Board, Chancellor's Office staff, in cooperation with the districts, designed and implemented a process for monitoring and evaluating the financial condition of community college districts. Its purpose is to promote fiscal stability through early identification of districts at risk and application of appropriate corrective action that enables those districts to maintain or restore stability. The fiscal monitoring and evaluation process in place assesses each district's financial condition on the basis of historical and current information derived from multiple sources, such as the district's Annual Financial and Budget Report (CCFS-311), annual audit reports, quarterly financial reports, and site visits.

Ongoing responsibilities require that Chancellor's Office staff evaluate districts' operations quarterly and categorize them into four groups: Priorities One, Two, Three, and No Follow-Up Required. The three priority categories refer to the need for follow-up action by the Chancellor's Office, with Priority One being districts with the most immediate need. (As of the end of the second quarter of fiscal year 1991-92, there were no Priority One districts, 6 Priority Two districts, and 11 Priority Three districts. Currently, required administrative efforts in these 17 priority districts are "stabilizing" in nature.)

The severe economic constraints being experienced by government at all levels have greatly affected the California Community Colleges. These constraints, coupled with projected increases in fees at four-year colleges, have contributed to unprecedented growth in community college student enrollment, while funding has lagged. Consequently, more districts have had to rely on their reserves to assist them through these economically difficult times. At the end of the 1990-91 second quarter, there were eleven priority districts, six fewer than in the current fiscal year. It is anticipated that if these economic trends continue, more districts may be fiscally challenged and the number identified as a priority for follow-up will unfortunately increase.

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SECTION III

Coordinated Program Fiscal and Compliance Reviews

In addition to State General Apportionments supporting a full spectrum of educational and student services programs, the California Community Colleges receive a variety of State and federal funds to provide supplemental services and programs to special segments of the student population. The number and type of these specially funded programs, commonly called "categorical programs," have grown in recent years and are described briefly in *Concerning Accountability: An Inventory of Responsibility*, a publication issued in March 1990 by the Chancellor's Office.

Many campus activities, such as counseling and tutoring, provide supplemental services to different types of special populations. Accordingly, these versatile services are eligible for support from a number of categorical funding sources depending upon the characteristics of the students served.

As first discussed in last year's edition of this report, an attempt to significantly reduce local inconvenience and increase agency efficiencies was proposed in 1989 by the Fiscal and Program Standards Accountability Unit (F&PSA) of the Chancellor's Office. It proposed the creation of a coordinated accountability model that would combine the oversight activities of significant State and federal programs into one uniform procedure. To further enhance the effectiveness of the process, F&PSA suggested that the oversight efforts be scheduled so evaluations would occur two years prior to college accreditation visits. In this way, college personnel could use the information generated during the coordinated reviews specifically to enhance their accreditation self-study reports.

The Chancellor's Office has the responsibility to design oversight activities that are commensurate with the unique risk exposures programs may experience, while balancing the estimated benefits of any oversight activity against its relative costs. Finally, the office needs to be able to respond to changes in the greater environment in which these programs operate. Consistent with these general objectives, F&PSA conducted a basic "risk assessment" of all activities of the California Community Colleges to determine programs most appropriate for inclusion in the coordinated accountability efforts. Factors considered during this assessment included:

- The financial size of a program and extent to which it operates in community college districts.

- The existing oversight activities underway in the programs, such as annual financial audits conducted by private CPAs and special compliance reviews conducted by State Department of Finance or other regulatory agencies.

- The involvement of other regulatory agencies, such as the Employment Development Department, in jointly-funded programs and corresponding oversight activities that arise from those agencies.

- The level of intrinsic administrative complexity of the programs.

- The extent to which pre-existing oversight mandates must be maintained.

- The extent to which a program is functionally driven by another program as demonstrated by the influence that Student Financial Aid eligibility efforts have on recipients of Extended Opportunity Programs and Services.

Due to the large number of special purpose programs and services, and the limited number of resources available within the Chancellor's Office, a joint decision reached by F&PSA and other program units was initially to limit the coordination efforts to the following programs:

- *Board Financial Aid Program (BFAP)*—reimburses community college districts for low-income students who cannot afford to pay the enrollment fee.

- *Disabled Students Programs and Services (DSP&S)*—provides support services, specialized instruction, and educational accommodations to mitigate the functional limitations of students with disabilities, so that they may compete on a basis equal with other community college students.

- *Extended Opportunity Programs and Services (EOPS)*—provides low-income, community college students with support services that help them enroll and succeed in postsecondary education.

- *Matriculation*—promotes student access and evaluation to enhance the success of credit students in achieving their educational goals.

- *Vocational Education* (a federally-funded supplement to the educational process)—provides additional services to special populations so that they may succeed in their educational goals. It also serves to upgrade and expand vocational education instruction so that it more closely aligns with current technology.

The type of oversight planned to occur within these programs and activities under coordinated reviews also varied because of available resources and past oversight efforts. Oversight, or accountability, can be categorized into four different types:

fiscal, compliance, program, and outcome or results. Fiscal accountability concerns the validation of reported financial information and evaluation of administrative and accounting procedures that influence the creation of that information. Compliance accountability measures the ability of a program or activity to follow regulations unique to that program or activity. Program accountability measures how efficiently services are being provided to an identified clientele. Finally, outcome or results accountability determines how effective programs are at improving students' circumstances or helping them reach their educational goals.

This effort to coordinate accountability did not seek to change the scope of previous efforts by the Chancellor's Office, but rather to maintain previous efforts while bringing together review techniques, visitation schedules, and reporting structures. As a result, coordinated accountability for the BFAP and Vocational Education programs initially included both fiscal and compliance aspects, whereas coordinated reviews of DSP&S and EOPS included not only fiscal and compliance components but also program accountability. For matriculation, because it is relatively new, both coordinated and independent reviews primarily limited to program accountability were conducted. In general, outcome accountability—introduced to community colleges through AB 1725 (Chapter 973, Statutes of 1988)—was not included as part of the scope of any coordinated review because of continuing developmental efforts.

Development of Review Procedures

To establish uniform review procedures for the above programs and activities, F&PSA, together with representatives from each of the program areas, focused their assignments on the development of coordinated review procedures, program survey documents, an operations manual, and other corollary documents during the 1989-90 fiscal year. The basic approach proposed was to provide college personnel with program survey questionnaires to perform their own reviews and, in selected cases, use fiscal and program personnel from the Chancellor's Office, accompanied by peers from other colleges, to verify each college's responses and to examine related areas of interest.

As mentioned earlier, coordinated accountability efforts were designed to complement and support the college accreditation process. Consequently, community colleges expecting accreditation visits two years hence used the surveys to analyze their operations and provide descriptive and performance responses for each program. While the surveys were being completed by college personnel, Chancellor's Office staff randomly selected a subset of seven to nine colleges for follow-up visits by the joint team of college and Chancellor's Office personnel. Once the surveys were completed and returned, staff assigned to conduct the visits studied the responses and determined additional procedures to employ during the site visit.

Implementation

After field testing the program survey process and site visit procedures, Chancellor's Office staff embarked on a schedule of formal college program reviews during fiscal year 1990-91. The number of colleges receiving program surveys was fully dependent on the accreditation cycle. Based on that schedule, 18 colleges were sent survey forms in fiscal year 1990-91. Because of financial constraints, only 6 of the 18 colleges were scheduled for the more detailed site visits in that year. As can be seen in Table 7, both urban and suburban, large and small colleges received the program surveys this first year.

TABLE 7

Coordinated Program Reviews Recipients

Fiscal Year 1990-91

Surveys Only	Surveys/Site Visits
College of Alameda	DeAnza College
Antelope Valley College	College of the Desert
Compton College	College of Marin
Fullerton College	Oxnard College
Irvine Valley College	Saddleback College
Kings River Community College	West Hills College
Los Angeles Southwest College	
Los Medanos College	
Merced College	
Mt. San Antonio College	
City College of San Francisco	
Victor Valley College	

Responses to the program survey and supporting data were returned to the Chancellor's Office and evaluated by both fiscal and program staff. The results of each analysis were then reported to the colleges as written evaluations, unless colleges were scheduled to be visited. Because 12 of the 18 selected colleges were not visited to confirm survey responses, many initial comments regarding program operations and compliance required follow-up communication with the college staff to obtain further clarification and confirmation of the issues. Even so, survey analysis identified a large number of fiscal and compliance issues as shown in Table 8. As explained earlier, matriculation is not addressed in Tables 8 and 9 because fiscal and compliance elements were not part of the scope of that program's review.

TABLE 8

Coordinated Program Surveys
Colleges with Reportable Issues

Fiscal Year 1990-91

Programs	Colleges	Issues
Extended Opportunity Programs and Services	12	135
Disabled Students Programs and Services	11	103
Vocational Education	10	24
Board Financial Aid, BOG Grants	7	12
TOTAL	12*	274

* Each college had more than one finding.

Once the exchange of follow-up communications was completed, tangible issues of program administration that needed modification or correction were identified and reported to the colleges. Changes in program management resulting from these survey reviews are currently underway.

The colleges reviewed through site visits gave high marks for the effectiveness and assistance provided by the review teams, and they acknowledged that such examinations in the year preceding a college's own self-study assisted the campus personnel in preparing for accreditations. By addressing multiple programs simultaneously and providing local personnel with definitive corrective actions, coordinated program reviews—while not significantly different in scope from previous accountability efforts—were more effective and comprehensive than earlier independent reviews. In total, analysis of the six college operations generated 64 reportable findings, as shown in Table 9.

TABLE 9

Coordinated Site Visits
Colleges with Reportable Issues

Fiscal Year 1990-91

Programs	Colleges	Issues
Vocational Education	5	22
Disabled Students Programs and Services	5	21
Extended Opportunity Programs and Services	3	14
Board Financial Aid, BOG Grants	2	7
TOTAL	6*	64

* Each college had more than one finding.

Whether the review was directed solely toward analysis of the program survey or through a more comprehensive site visit, all the programs were examined for certain characteristics or program-specific indicators of accountability. For analysis purposes, the functions of management were organized into five areas: program initiation and planning; program administration, including internal control; personnel requirements; student and service eligibility; and fiscal administration. Such a structure provided a comprehensive focus to a program's assessments and enabled reviewers to apply the methodology to other programs or activities, as needed.

Summary

In retrospect, the 1990-91 coordinated accountability efforts supported comprehensive, fair, and effective program management assistance and stewardship of public money.

Major changes have occurred in coordinated program reviews for fiscal year 1991-92. Site visits were discontinued because of extraordinary fiscal constraints being experienced by the State. To counteract the effects of curtailing such visits, program surveys have been modified to capture more complete information. Specifically, colleges are now required to submit samples of actual file documents for Chancellor's Office review.

Because the new federal Carl D. Perkins Vocational and Applied Technology Education Act made significant changes to colleges' accountability requirements, the vocational education component of the program survey has been temporarily suspended. The new act contains explicit requirements for measuring student outcomes and other significant changes regarding the identification of service recipients. Once colleges have achieved the transition to the new act and its requirements, F&PSA plans to re-examine the inclusion of vocational education programs. The remaining three programs received some additional changes in scope, the elimination of student eligibility tests from the BFAP being the most significant. Major factors leading to this decision included the relative size of each individual grant and the two eligibility criteria that are required by other financial aid programs.

While the coordinated program review process has proven itself a viable accountability methodology, it is labor intensive. Current and prospective agency-reduced funding levels cast doubts on the future of this process, but the hope is that it will continue to evolve and improve with time.

SECTION IV

Community College Accounting Standards

A pronouncement issued over a year ago by the Governmental Accounting Standards Board (GASB), which establishes reporting requirements for audited governmental financial statements, and revisions being made to the *Community College Budget and Accounting Manual* will significantly influence community college financial reporting. GASB Statement 14, *The Financial Reporting Entity*, defines the component units of an organization and stipulates how such units should be reported on annual financial reports. Effective for fiscal years beginning after December 15, 1992, these changes will alter the disclosure requirements for college foundations, joint powers authorities, and public benefit corporations created in connection with the issuance of certificates of participation.

GASB 14 specifies differing disclosure requirements for such component units depending on the legal relationships with the college district, the financial benefit or burden provided to the district, and the degree to which each component unit extends its services to a district. At the very least, relationships may require footnote disclosure with condensed financial information. If an entity is considered a component unit, more elaborate disclosures would be required. Some units will need to be brought into the financial statements of the district and presented as another fund in the appropriate combining statements, and some component units would be presented separately on the district financial statements. It is a very comprehensive pronouncement and increases the need for districts to address additional administrative questions, as to proper accounting techniques and the relationships between districts and component units and their respective auditors.

The *Community College Budget and Accounting Manual* was last revised in 1986. Through the years, the Manual has been seen as not adequately addressing information needed by community college accounting administrators. As a result, Chancellor's Office staff, in extensive consultation with college representatives, have proposed modifications to the Manual to clarify specific areas. General objectives of the revision project are to make community college accounting techniques more consistent with generally accepted accounting procedures for governmental units while recognizing the unique aspects of the California Community Colleges.

The nature of the proposed changes are too extensive to enumerate here, but include more elaborately defined Trust and Agency Funds and increased flexibility for district revolving funds, among other revisions. The account coding structure also has been expanded to more adequately address new categories of revenue and expenditure that have evolved over the years. The modified Manual is scheduled for

review by the Board of Governors in the near future and, if approved, will be effective with the 1993-94 fiscal year. Because of the potential influence GASB 14 and the revised Budget and Accounting Manual will have on district accounting operations and financial reporting requirements, district accounting and auditing personnel are advised to become familiar with both publications.

APPENDICES

A. Federal and State Compliance Requirements

B. Contracted District Audit Manual Revisions, March 1992

APPENDIX A

Federal and State Compliance Requirements

Annual financial audits are to examine the following compliance requirements in each community college district. In many districts, due to the size of the federal programs, audits may be required to expand their scope to include compliance tests of specific federal programs.

Federal Compliance Requirements

1. **Political Activity**

   Compliance Requirement

   Federal funds cannot be used for partisan political activity of any kind by any person or organization involved in the administration of federally assisted programs.

2. **Davis-Bacon Act**

   Compliance Requirement

   When required by the federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the secretary of labor.

3. **Civil Rights**

   Compliance Requirement

   No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discrimination in any program or activity funded, in whole or in part, by federal funds. Some federal programs further prohibit discrimination on the basis of gender or religion.

4. Cash Management

Compliance Requirements

Grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by federal agencies to primary recipient organizations.

5. Relocation Assistance and Real Property Acquisition

Compliance Requirement

Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses. Grant recipients acquiring property in the administration of federal aid must carry out certain actions systematically, e.g., have property appraised in presence of owner, review appraisals, set price, and negotiate settlements. Similarly, when displacements (relocations) are involved, the recipient must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards, and maintain records on all acquisitions and displacements.

6. Federal Financial Reports

Compliance Requirement

Most federal programs require periodic submission of financial reports that fall within one or more of the following categories:

a. Office of Management and Budget Circular A-102 H

b. Treasury Circular 1075

c. Other federal reports adapted with permission of the Office of Management and Budget to meet particular program requirements

The specific requirement for each grant program is presented in the Reporting Requirements (III-D) section for that program. The suggested audit procedures are provided to facilitate the requirement for the auditor to comment on completeness and accuracy of reports required by OMB Circular A-128, Audits of

State and Local Governments; and Treasury Circular 1075, Withdrawal of Cash from the Treasury for Advances under Federal Grants and Other Programs.

7. **Allowable Costs/Cost Principles**

Compliance Requirement

The cost of a federally-supported program is comprised of the allowable direct cost of the program plus its allocable portion of allowable indirect costs less applicable credits. Federal cost principles are designed to provide that federally-assisted programs bear their fair share of recognized costs as determined by allowable cost principles. No provision for profit or other increment above cost is intended.

OMB Circular A-87, "Cost Principles for State and Local Governments," establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments. A cost is allowable for federal reimbursement only to the extent of benefits received by federal programs; costs must meet the basic guidelines of allowability, reasonableness, and allocability, and remain the net of all applicable credits.

8. **Drug-Free Workplace**

Compliance Requirement

All grantees receiving grants, including cooperative agreements, from any federal agency must certify that they will provide a drug-free workplace, or, in the case of a grantee who is an individual, certify to the agency that his or her conduct of grant activity will be drug-free. Making the required certification is a precondition of receiving a grant from a federal agency, beginning on March 18, 1989. A grantee, except a state, is required to make the required certification for each grant. A state, including a state agency, may elect a single annual certification for each federal agency from which it obtains grants.

9. **Student Financial Aid Programs**

Specific compliance requirements and mandatory audit areas for student financial aid (SFA) programs provided here are extracted from the *Audit Guide: Audits of Student Financial Assistance Programs*, published by the U.S. Department of Education, Office of the Inspector General.

a. *Cash Management*

Compliance Requirement

Financing for SFA programs is normally made through advance payments. SFA programs will be made through one of three methods: (1) Cash request, for those institutions new to SFA programs or for institutions which receive funding on a reimbursement basis; (2) Automated Clearing House/Electronic Fund Transfer (ACH/EFT), the primary mechanism used to disburse U.S. Department of Education (ED) funds to most institutions; and (3) FEDWIRE, the mechanism used to disburse ED funds to states and very large institutions. An institution's financial management system should include the necessary controls to ensure that program funds are accounted for properly and are used for authorized purposes. Regardless of the method of payment, an institution's cash controls should provide that cash on hand does not exceed the immediate disbursement needs of the SFA programs.

b. *Financial Reporting*

Compliance Requirement

An institution receiving SFA funds is required to ensure that financial status reports, cash reports, and claims for advances and reimbursements contain reliable financial data and are presented in accordance with the terms of applicable agreements. The following are some of the reports prepared by institutions:

(1) Fiscal Operations Report and Application to Participate (FISAP Report/ED Form 646-1)

(2) Pell Institutional Payment Summary (ED Form 255-3b)

(3) GSL—Student Confirmation Reports

(4) ACH/EFT Voucher Request Record

(5) FEDWIRE Payment Request Information Voucher

(6) Recipient Request for Advance or Reimbursement

(7) Federal Cash Transaction Report SF 272

Individual award agreements contain the specific reporting requirements that the recipient is to follow. Auditors should familiarize

themselves with the detailed instructions and the client's system for preparing and submitting federal financial reports. A separate auditor's opinion on these reports is not required. However, as a basis for comments, the auditor should examine a sample of reports and trace the data on these reports to the underlying records on a test basis.

c. *Institutional Eligibility and Participation*

Compliance Requirements

(1) To participate in the Pell or campus-based programs, an institution must be an eligible institution of higher education, i.e., a public or nonprofit private institution, a proprietary institution, or a postsecondary vocational institution. Public or private nonprofit institutions of higher education, vocational schools, and certain foreign schools that meet statutory and regulatory requirements may be eligible to participate in the Stafford Student Loan (SSL), Supplemental Loans for Students (SLS), and Parents Loans for Undergraduate Students (PLUS) programs.

(2) Student withdrawal rates in excess of 33 percent may impair an institution's capability to adequately administer the Title IV program.

d. *Student Eligibility*

Compliance Requirement

A grant, loan, and/or work-study award may be made only to a student who is a regular student of a postsecondary institution; is enrolled or accepted for enrollment as, at least, a half-time student in an eligible program; is a U.S. citizen, national, or permanent resident, or in another specified status; has financial need; has signed a Statement of Educational Purpose; has signed a Statement of Registration Status; is maintaining satisfactory progress in his or her course of study; is admitted with a certificate of graduation from a school providing secondary education, or is admitted with a recognized equivalent of that type of certificate, or is beyond the age of compulsory high school attendance in the state in which the institution is located and has the ability to benefit from the education or training offered; does not owe a refund on a Title IV grant; and is not in default on a federally funded or insured student loan received from or for attendance at any institution. In addition, effective July 1, 1988, a student must certify that he or she is not in default

and does not owe a refund. If a student has been accepted into an eligible program within which that student takes remedial courses, the student is eligible for Title IV aid. If the student is not accepted into an eligible program until the remedial program has been successfully completed, he or she is not eligible until accepted into the eligible program.

Exceptions to Compliance Requirements

There are several exceptions to the general compliance requirements: an institution may make Pell Grants and Supplemental Educational Opportunity Grants (SEOGs) only to undergraduate students; an institution may use a reasonable proportion of its College Work-Study (CWS) and/or SEOG allocation to fund students enrolled less than half-time; selected Pell students enrolled less than half-time are also eligible; PLUS and SLS borrowers do not have to show financial need (PLUS borrowers include parents of dependent undergraduate students); certain Guaranteed Student Loan (GSL) students do not have to be regular students enrolled in eligible programs.

e. *Coordination of Student Aid Programs*

Compliance Requirement

An institution shall coordinate Title IV programs with the other federal and nonfederal programs of student financial aid it administers and shall establish controls to preclude the awarding of assistance in excess of a student's financial need. The institution must assure that it uses all information in its possession regarding a student's Title IV eligibility, including needs analysis documents, tax returns, information regarding a student's citizenship, previous educational experience, or other factors.

f. *Administrative Capability—Student File Maintenance, Fiscal Procedures, Recordkeeping, and Verification*

Compliance Requirements

(1) An institution shall establish and maintain, on a current basis, financial records to reflect all financial transactions. The institution shall identify disbursements of Pell, Perkins, CWS, and SEOG funds separately from all other expenditures. Program and fiscal records must show cost of attendance, student resources, student eligibility, and payment, respectively. The regulations

specify other administrative capabilities an institution must meet, including satisfactory academic progress.

(2) Except for loan records and audit questions, an institution must keep records for any award year for five years after filing its Fiscal Operations Report (for Campus-Based Program funds) and June 30 Pell Institutional Payment Summary. For Perkins loans, the institution must keep repayment records for at least five years from the date of loan assignment, repayment, or cancellation. For GSL and PLUS loans, the institution must keep copies of reports for five years after filing. For GSL, SLS, and PLUS loans, the institution must keep all required records for five years following the last date of the period for which the loan was intended. The institution must keep records of any claim or expenditures questioned by federal audit until resolution of any audit questions.

(3) The institution must verify the required applicant data on those SARs or other needs analysis documents selected by ED for verification, before disbursing Title IV funds. However, no institution is required to verify more than 30 percent of its applicants for all SFA programs.

g. *Institutional Disbursements to Award Recipients*

Compliance Requirements

(1) If an institution is disbursing Stafford, Pell, Income Contingent Loans (ICL), or campus-based program funds, it shall obtain a financial aid transcript, if a recipient previously attended another eligible institution, and maintain the transcript on file.

(2) The various student aid programs have maximums and minimums, as follows:

Perkins:

(a) $18,000 maximum for a graduate student (includes any amounts the student received as an undergraduate student).

(b) $9,000 maximum for an undergraduate with an upper limit of $4,500 on loans to undergraduates during the first two years.

SEOG:

(a) $4,000 maximum for the academic year.

(b) $100 minimum for the academic year.

Pell Grant:

The amount of the award varies, depending on the payment schedule in effect for the award year involved, but it may not be below the minimum or exceed the maximum award established for that year.

(3) In general, an institution shall make at least two equal payments each academic year, under the Pell, SEOG, and Perkins programs. For these programs, the institution shall make direct disbursements to a student; if it credits the student's account, it must give the student receipts or other notice of the method of payment. For CWS, the institution must pay the student directly at least once a month.

h. *Refund Calculation and Overpayment Determination Procedures*

Compliance Requirements

(1) Withdrawal Date vs. Drop-Out Date

The date used to calculate the student's refund or repayment is the date the student officially notifies the school that he or she is withdrawing from the program. If the student leaves school without giving notice, the school must use the "drop-out date."

It is important to distinguish the difference between "drop" date and "withdrawal" date. The drop date is the last date the institution can document that the student attended classes (last recorded day of attendance), whereas the withdrawal date is the date the student officially notifies the school of withdrawal or the date the school unofficially learns the student has withdrawn. They can be the same date, but could differ. For example, the student may drop-out on September 20, but not notify the school until October 10. September 20 falls within the school's refund period, and thus, there is a Title IV refund.

However, the 60-day period to return the funds to the lender or Title IV accounts does not start until October 10.

If a student who received Title IV funds other than CWS is due a refund, the institution shall return a portion of the refund to the Title IV program(s) by using the following formula:

> student refund multiplied by the factor of: [amount of Title IV minus CWS earnings awarded for the payment period] divided by [the total amount of aid awarded minus earnings for the payment period].

Certain institutions are subject to a pro rata refund policy for students who received a Stafford or SLS loan, or whose parents received a PLUS loan. This policy will affect the amount of the student's refund. See page VIII-6 of the U.S. Department of Education *Audit Guide* for additional information on the pro rata refund requirements.

(2) An institution is responsible for determining any overpayment to a student. An overpayment can commonly occur when a student leaves an institution after receiving a cash disbursement under the Pell, SEOG, or Perkins programs.

The institution shall use the following formula in determining the amount of overpayment to be returned to the Title IV programs:

> The amount of the overpayment is equal to: [Total amount of Title IV aid (exclusive of CWS, Stafford, PLUS, and SLS) awarded for the payment period] divided by the [total amount of aid (exclusive of CWS, Stafford, PLUS, and SLS) awarded for the payment period].

State Compliance Requirements

1. **Required Data Elements (formerly titled Audit Trail Accountability)**

Compliance Requirement

Each district shall have the ability to support timely, accurate, and complete information for the following workload measures used in the calculation of State General Apportionment:

a. Credit Full-time Equivalent Student (FTES) in weekly census, daily census, actual hour of attendance, and apprenticeship courses

b. Noncredit FTES in actual hour of attendance courses

c. Credit Student Headcount Data (both new and continuing)

d. Gross Square Footage and FTES Growth in New Facilities

2. **State Aid for Course Repetition**

Compliance Requirement

Section 58161 of the *California Code of Regulations* does not allow a district to claim State General Apportionment for attendance of a student in a course in which the student has previously received a grade from the district, unless either the student is repeating the course to alleviate substandard work that has been recorded on the student's record; the district finds that the student's previous grade was the result of extenuating circumstances; or the district has determined that a student should repeat a course, because there has been a significant lapse of time since the student previously took the course.

Attendance for such repetition may be claimed only once for State aid (beyond that originally claimed when the course was first completed). State General Apportionment for repetition of "activity" courses not expressly authorized above may be claimed for three additional semesters or five additional quarters upon approval of the Chancellor.

The district must identify the courses which are to be repeatable and designate such courses in its catalog; it must determine and certify that each identified course is one in which the course content differs each time it is offered, and that the student who repeats it is gaining an expanded educational experience. The district must also develop and implement a mechanism for the proper monitoring of such repetitions. (For the 1987-88 fiscal year, the Chancellor delegated authority to the districts to designate activity courses as repeatable,

consistent with applicable standards developed in Section 58161 of Title 5 of the *California Code of Regulations*.)

3. **Residency Determination**

Compliance Requirement

Each district must act to ensure that the residency of each student is properly classified and that only the attendance of California residents (or nonresidents pursuant to Section 84711 of the *Education Code*) is claimed for State support.

4. **Students Actively Enrolled** (formerly titled Census and Drop Procedures)

Compliance Requirement

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

5. **Salaries of Classroom Instructors** (commonly called "50 Percent Law")

Compliance Requirement

Each district's classroom instructors' salaries shall equal or exceed 50 percent of the district's current expense of education, in accordance with Section 84362 of the *Education Code*.

6. **Uses of Matriculation Funds (new test)**

Compliance Requirements

a. Districts are required to use local funds to support at least 75 percent of the matriculation activities with the remaining expenditures claimable against the State matriculation allocation. All expenditures related to the allocation, both State and local funded portions, must be consistent with the district's State-approved matriculation plan and identifiable with the activities listed below:

(1) Admissions and records

(2) Student exemption features

(3) Assessment procedures

(4) Orientation

(5) Counseling and advisement

(6) Student follow-up

(7) Research and evaluation

(8) Coordination and training

(9) Data processing specific to matriculation

(10) Other (with Chancellor's Office written permission)

b. Districts must use the annual State matriculation allocation to expand levels of services that were in place in 1986-87, or to add entirely new services. The State allocation may not be used to supplant district funded services, including personnel costs, that existed in 1986-87 or before.

7. Student Probation and Dismissal

Compliance Requirement

Students shall be placed on probation if:

- their grades reflect either academic deficiency or failure to make timely progress on courses attempted; or
- they earned a grade point average below 2.0 in at least 12 semester- or 18 quarter-units attempted; or
- their records show entries of "W," "I," and "NC" in at least 50 percent of 12 semester- or 18 quarter-units attempted.

Students on probation shall be subject to dismissal if they earn either an accumulative grade point average of less than 1.75 in all units attempted over three semesters, or five quarters; or receive entries of "W," "I," or "NC" in at least 50 percent of units attempted over three semesters, or five quarters.

8. Allocation of Costs

Compliance Requirement

Salaries of instructors teaching ADA-generating classes, school counselors providing academic advisement, and financial aid officers conducting needs analysis are not considered supportable charges against either Extended

Opportunity Programs and Services (EOPS) or Disabled Students Programs and Services (DSP&S) accounts, unless their activities require them to perform additional functions for the EOPS or DSP&S programs that are beyond the scope of services provided to all students in the normal performance of the regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOPS or DSP&S.

9. **EOPS Administrator/Director Requirements**
(formerly titled Administrative Salaries of EOPS Funded Personnel)

Compliance Requirement

Each district's claim upon EOPS funds shall exclude expenses incurred as administrative salaries (assistant dean beginning salary level for the district and above), unless the administrator exclusively functions in the capacity of the EOPS Director or an exemption is specifically certified by the Chancellor's Office.

10. **GANN Limit Calculation** (new test)

Compliance Requirement

Community college districts shall calculate appropriation limits annually and adopt them in public meetings. The calculation and adoption shall be verified by certified public accountants as part of their annual financial audits.

APPENDIX B

Contracted District Audit Manual Revisions March 1992

	Revised Pages
Table of Contents: Changed titles of Sections 420, 520, and 530. Renumbered existing sections to provide for new Sections 440, 474, 475, and 477. Replaced reference to federal Office of Management and Budget (OMB) Circular AD133 with OMB Circular AD128.	1, 2, 3
Section 100: New regulations required modifications to Section 140. Changes to publications in Section 180 reflect documents now available or to be made available.	2, 3, 4
Section 200: Wording clarified in Sections 220, 250, and 260. Section 230 modified for OMB Circular AD128. Section 270 modified for implementation of program-based funding.	1, 2, 3
Section 300: Section 323 modified for OMB Circular A-128. Section 327 modified for implementation of program-based funding. Section 333 amended for greater clarity.	2, 6, 7, 8
Section 400: Entire area has been reorganized to establish optional or required State compliance tests resulting in changes to Section 410, renumbering of the ten specific test sections, and the establishment of Section 440. Optional program-specific sections have been introduced in Sections 474, 475, and 477.	1, 5-11, 14-16, 18-21
Seven of the ten specific compliance tests are subject to significant amendment or replacement due to the commencement of program-based funding and new or modified student services programs. Changes were made to Sections 424, 425, 426, and 428. Section 431 added because of the mandate in Proposition 111 that auditors review the districts' calculation of the Gann Limit. Section 433, Instructional Equipment, deleted.	

	Revised Pages
Section 500: Section 510 underwent significant wording changes to reflect the reestablishment of the applicability of OMB Circular AD128 and to more clearly identify required or optional federal compliance tests. Section 520 renamed to list required tests. Section 527.8 deleted because of the suspension of federal disclosure regulations. Section 530 established to list optional federal compliance tests.	1-15
Section 600: Changes in regulations required modifications to Sections 622 and 630.	3, 4, 8, 9
Appendix A: Changed language in Auditor's Opinion regarding Government Auditing Standards. Added new Note 1—Definition of Reporting Entity. Renamed the Schedule of Average Daily Attendance in the table of contents to reflect program-based funding. Minor wording change in District Superintendent letter. Pages 41, 43, 46, and 48 modified for change to OMB Circular AD128. Page 37 changed to reflect program-based funding data requirements.	1, 3, 10-18, 27-33, 37, 41, 43, 45-47, 51
Appendix B: No Changes.	
Appendix C: Office of Management and Budget (OMB) Circular A-128 replaced OMB Circular A-133.	All pages

ERIC Clearinghouse for Junior Colleges